

**REPORT OF THE AUDIT OF THE
BOONE COUNTY
SHERIFF'S SETTLEMENT - 2013 TAXES**

**For The Period
April 16, 2013 Through April 15, 2014**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912**

EXECUTIVE SUMMARY

**AUDIT OF THE
BOONE COUNTY
SHERIFF'S SETTLEMENT - 2013 TAXES**

**For The Period
April 16, 2013 Through April 15, 2014**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2013 Taxes for the Boone County Sheriff for the period April 16, 2013 through April 15, 2014. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected 2013 taxes of \$133,365,246 for the districts, retaining commissions of \$3,465,445 to operate the Sheriff's office. The Sheriff distributed 2013 taxes of \$126,392,250 to the districts. Taxes of \$9,953 are due to the districts from the Sheriff and refunds of \$3,753 are due to the Sheriff from the taxing districts.

Report Comment:

2013-001 The Sheriff's Listing Of Exonerations Is Not Maintained In The Manner Prescribed By The Department Of Revenue

Deposits:

The Sheriff's deposits as of November 4, 2013 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$ 7,191,046

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Gary W. Moore, Boone County Judge/Executive
Honorable Michael A. Helmig, Boone County Sheriff
Members of the Boone County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Boone County Sheriff's Settlement - 2013 Taxes for the period April 16, 2013 through April 15, 2014 - Regulatory Basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for Sheriff's Tax Settlements* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

Honorable Gary W. Moore, Boone County Judge/Executive

Honorable Michael A. Helmig, Boone County Sheriff

Members of the Boone County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the County Sheriff, as of April 15, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 16, 2013 through April 15, 2014 of the Boone County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2016 on our consideration of the Boone County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Boone County Sheriff's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

Honorable Gary W. Moore, Boone County Judge/Executive

Honorable Michael A. Helmig, Boone County Sheriff

Members of the Boone County Fiscal Court

Other Reporting Required by Government Auditing Standards (Continued)

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2013-001 The Sheriff's Listing Of Exonerations Is Not Maintained In The Manner Prescribed By The Department Of Revenue

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike H", with a stylized flourish at the end.

Mike Harmon

Auditor of Public Accounts

March 2, 2016

BOONE COUNTY
MICHAEL A. HELMIG, SHERIFF
SHERIFF'S SETTLEMENT - 2013 TAXES

For The Period April 16, 2013 Through April 15, 2014

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 10,541,053	\$ 20,539,645	\$ 64,279,970	\$ 12,257,160
Tangible Personal Property	1,869,744	5,411,692	8,211,750	5,237,594
Increases Through Exonerations	5,107	10,046	25,847	5,265
Omitted Taxes	337	919	1,999	392
Franchise Taxes	1,015,301	1,669,000	4,435,380	
Additional Billings	14,361	27,367	83,902	42,533
Limestone, Sand and Mineral Reserves	138	375	816	160
In-Lieu Of Taxes	134,368	323,623	926,390	41,498
Penalties	21,995	48,018	131,095	28,254
Adjusted to Sheriff's Receipt	(5,872)	(4,963)	(6)	(18,089)
Gross Chargeable to Sheriff	<u>13,596,532</u>	<u>28,025,722</u>	<u>78,097,143</u>	<u>17,594,767</u>
<u>Credits</u>				
Exonerations	19,554	92,695	116,760	23,116
Discounts	223,106	463,596	1,299,683	312,002
Delinquents:				
Real Estate	82,565	155,165	500,673	95,933
Tangible Personal Property	8,868	11,821	38,731	20,828
Franchise Taxes	<u>68,677</u>	<u>126,167</u>	<u>288,978</u>	
Total Credits	<u>402,770</u>	<u>849,444</u>	<u>2,244,825</u>	<u>451,879</u>
Taxes Collected	13,193,762	27,176,278	75,852,318	17,142,888
Less: Commissions *	<u>560,735</u>	<u>659,113</u>	<u>1,517,024</u>	<u>728,573</u>
Taxes Due	12,633,027	26,517,165	74,335,294	16,414,315
Taxes Paid	12,113,675	25,997,934	72,248,802	16,031,839
Refunds (Current and Prior Year)	<u>519,657</u>	<u>509,855</u>	<u>2,088,152</u>	<u>383,687</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ (305)</u>	<u>\$ 9,376</u>	<u>\$ (1,660)</u>	<u>\$ (1,211)</u>

**

*, **, and *** See next page.

The accompanying notes are an integral part of this financial statement.

BOONE COUNTY
 MICHAEL A. HELMIG, SHERIFF
 SHERIFF'S SETTLEMENT - 2013 TAXES
 For The Period April 16, 2013 Through April 15, 2014
 (Continued)

* Commissions:

4.25% on	\$ 42,255,112
2% on	\$ 75,850,067
1% on	\$ 15,260,067

** Special Taxing Districts:

Library District	\$ 1,621
Health District	578
Extension District	(45)
Walton Fire	256
Bellevue Fire	(8)
Hebron Fire	91
Union Fire	224
Burlington Fire	1,657
Point Pleasant Fire	4,775
Petersburg Fire	383
Verona Fire	(1)
Florence Fire	<u>(155)</u>

Due Districts or (Refunds Due Sheriff)	<u>\$ 9,376</u>
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*** School Districts:

Boone County	\$ (2,028)
Walton Graded Schools	<u>368</u>

Due District or (Refund Due Sheriff)	<u>\$ (1,660)</u>
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BOONE COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2014

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Boone County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

BOONE COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 15, 2014
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 4, 2013, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$ 7,191,046

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2013. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2014. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 30, 2013 through April 15, 2014.

Note 4. Interest Income

The Boone County Sheriff earned \$5,798 as interest income on 2013 taxes. The Sheriff distributed the appropriate amount to the school districts as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Boone County Sheriff collected \$177,440 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff deposited unrefundable duplicate payments and unexplained receipts into interest-bearing accounts. The Sheriff's escrowed amounts were as follows:

2008	\$	2,518
2009	\$	5,807
2010	\$	15,740
2011	\$	2,081

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110. The Sheriff should send a written report to the Treasury Department and submit appropriate amounts to the Kentucky State Treasurer in accordance with KRS 393.110.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Gary W. Moore, Boone County Judge/Executive
Honorable Michael A. Helmig, Boone County Sheriff
Members of the Boone County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Boone County Sheriff's Settlement - 2013 Taxes for the period April 16, 2013 through April 15, 2014 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated March 2, 2016. The Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Boone County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Boone County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Boone County Sheriff's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Boone County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying comment and recommendation as item 2013-001.

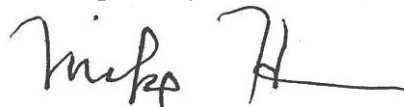
Sheriff's Response to Finding

The Boone County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. The Boone County Sheriff's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on the Sheriff's response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike H", with a stylized flourish at the end.

Mike Harmon
Auditor of Public Accounts

March 2, 2016

COMMENT AND RECOMMENDATION

BOONE COUNTY
MICHAEL A. HELMIG, SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 16, 2013 Through April 15, 2014

STATE LAWS AND REGULATIONS:

2013-001 The Sheriff's Listing Of Exonerations Is Not Maintained In The Manner Prescribed By The Department Of Revenue

The Sheriff's listing of exonerations is not being maintained in the manner required by the Kentucky Department of Revenue because the Sheriff's software program does not provide an individual listing of exonerated amounts that comprise totals used in the preparation of the Sheriff's Settlements. The Sheriff's exonerations listing also includes exonerated assessments that resulted in refunds.

Sheriff's totals for exonerations increases and decreases produced by the software system were adjusted significantly during the preparation of the Sheriff's Settlements. During the audit process, we were unable to verify the accuracy of the Sheriff's listing of exonerations (and subsequent adjustments) due to the inadequacy of the software program.

In the manual "Property Tax Duties of Sheriff's Office," prepared by the Office of Property Valuation, December 2014, the Department of Revenue requires Sheriffs to properly maintain a listing of exonerations. Specifically, the manual states, "Each exonerations form needs to be properly maintained by the sheriff and a report that lists each exonerations amount will need to be generated for review by both the Department of Revenue field staff and personnel with the State Auditor's Office."

We recommend the Sheriff maintain an exonerations listing in a manner that reflects each individual exonerations amount as required by the Department of Revenue. Additionally, the listing of exonerations should not include exonerations that resulted in a refund.

Sheriff's Response: The exonerations report mentioned above does include refund exonerations that were adjusted. The report was recreated and proven accurate. We will discuss a redesign of the report with our IT department.

